

**The Public Building Authority  
of Coffee County, Tennessee**

**(A Component Unit of  
Coffee County, Tennessee)**

**Audit Report**

**June 30, 2011**

**The Public Building Authority  
of Coffee County, Tennessee  
Audit Report  
June 30, 2011**

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**The Public Building Authority  
of Coffee County, Tennessee  
Introductory Section - Unaudited  
June 30, 2011**

**Roster of Board Members and Management Officials**

**Board Members**

Roger Dotson, Chairman  
Manchester, TN

Patricia Pineger, Secretary  
Manchester, TN

Richard Dix, Treasurer  
Manchester, TN

Jim Major  
Tullahoma, TN

Wendell Hanson  
Tullahoma, TN

Freda K. Jones  
Manchester, TN

Joseph Hills, Sr.  
Tullahoma, TN

**Management Officials**

Michael Osborne, General Manager  
Manchester, TN

See Accountants' report.

# **The Coffee County Public Building Authority Management's Discussion and Analysis As of June 30, 2011**

This section of the Coffee County Public Building Authority's annual financial report presents an analysis of the Authority's purpose, activities and highlights for the fiscal year 2011. Detailed financial information can be found in the financial statements that follow this section.

## **Authority Purpose**

The Coffee County Public Building Authority was established by the Coffee County Commission on September 21, 2000, for the purpose of issuing bonds to governmental agencies generally located in the middle region of the State of Tennessee. In addition, the Authority shall own and operate the Manchester Coffee County Conference Center and any other public buildings within the county as appropriate in the future.

## **Authority Activities and Highlights**

### **Lending:**

The Authority has supported the Middle Tennessee Region issuing more than \$62.5 million in bonds from its inception through June 30, 2011. The bonds were used to benefit the public through water and sewer projects, construction of the Manchester Coffee County Conference Center, and construction of the Coffee County Vocational Training Center.

### **Manchester Coffee County Conference Center:**

The Coffee County Public Building Authority owns and operates the Manchester Coffee County Conference Center (MCCCC). The MCCCC is a full service conference and meeting facility with 13,000 square feet of flexible floor area. Typical uses of the MCCCC are seminars, trade shows, wedding receptions, high school proms and other events, industry and organizational parties, meetings, banquets, and community special events. The MCCCC is managed for the PBA by Executive Chef Michael Osborne. The MCCCC is reported as a proprietary fund of the Authority.

The MCCCC purpose is to provide the citizens of Coffee County with a meeting and event facility, generate revenue good will, and foster community morale. The MCCCC has been very successful fulfilling this purpose.

Conference Center revenues for this fiscal year were in excess of \$476,000, a 7% decrease over the prior fiscal period. Direct revenue from outside Coffee County, not including indirect revenue and tax dollars, increased by more than \$11,850.00, during the same period, showing greater penetration into both the Greater Middle Tennessee and National Markets.

## **Overview of the Financial Statements**

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised to two components: 1) combined government-wide and fund financial statements, and 2) notes to the financial statements.

## **Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities are two basic financial statements that report information about the Authority as a whole. The data is reported using the accrual basis of accounting, and provides insight as to whether or not the Authority's total financial position has improved as a result of the current year's activities.

The Statement of Net Assets presents all of the Authority's assets and liabilities, with the difference between the two reported as "net assets."

The Statement of Activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. receipt or payments on long-term debt obligations.)

## **Fund Financial Statements**

The fund financial statements provide detailed information about the Authority's funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of funding and spending for a particular purpose. All of the Authority's activity is reported in Governmental Funds Financial Statements. Governmental funds are used to account for essentially the same functions reported as government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Authority's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Authority.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the governmental activities.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. These notes are contained in the detailed audit reports for each previous fiscal period. Copies are on file with the State of Tennessee, Coffee County, Manchester City and Coffee County PBA.

Roger Dotson  
Chairman  
Coffee County Public Building Authority

# BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, SUITE A, WINCHESTER, TN 37398

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Office: 931-967-0611

Fax: 931-967-4784

[www.brkcpa.com](http://www.brkcpa.com)

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Certified Public Accountants,  
Tennessee Society of CPA's,  
Association of Government Accountants

## Independent Auditors' Report

### Board of Directors

The Public Building Authority of Coffee County, Tennessee  
Manchester, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

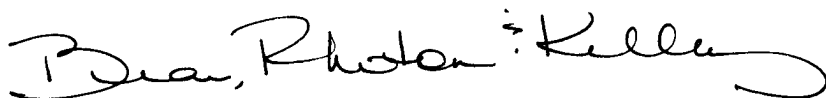
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2011, on our consideration of The Public Building Authority of Coffee County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of the laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Public Building Authority of Coffee County, Tennessee's financial statements as a whole. The introductory section and the schedules listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. Schedules listed in the table of contents as supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Bean, Rhoton & Kelley". The signature is fluid and cursive, with a long horizontal stroke at the end.

Bean, Rhoton & Kelley, PLLC  
December 30, 2011

The Public Building Authority  
of Coffee County, Tennessee  
Statement of Net Assets  
June 30, 2011

	Primary Government		
	Governmental	Business Type	
	Activities	Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,441.27	\$ 189,875.50	\$ 191,316.77
Restricted cash	0.00	16,252.67	16,252.67
Receivables-net of allowances	5,815,000.00	50,371.72	5,865,371.72
Accrued interest receivable	75,926.52	0.00	75,926.52
Inventory	0.00	24,447.58	24,447.58
Capital assets:			
Land	25,000.00	0.00	25,000.00
Buildings and improvements, net of depreciation	0.00	1,869,635.70	1,869,635.70
Furniture, machinery, and equipment net of depreciation	23,438.22	24,731.77	48,169.99
Deferred bond costs	227,245.63	0.00	227,245.63
TOTAL ASSETS	<u>\$ 6,168,051.64</u>	<u>\$ 2,175,314.94</u>	<u>\$ 8,343,366.58</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 132.00	\$ 50,134.28	\$ 50,266.28
Accrued liabilities	0.00	30,519.96	30,519.96
Accrued interest payable	75,926.52	0.00	75,926.52
Bond premiums	227,245.63	0.00	227,245.63
Noncurrent liabilities:			
Due within one year	440,000.00	0.00	440,000.00
Due in more than one year	5,375,000.00	0.00	5,375,000.00
TOTAL LIABILITIES	<u>\$ 6,118,304.15</u>	<u>\$ 80,654.24</u>	<u>\$ 6,198,958.39</u>
<b>NET ASSETS</b>			
Invested in capital assets	\$ 48,438.22	\$ 1,918,291.24	\$ 1,966,729.46
Restricted (non-expendable)	0.00	16,252.67	16,252.67
Unrestricted	1,309.27	160,116.79	161,426.06
TOTAL NET ASSETS	<u>\$ 49,747.49</u>	<u>\$ 2,094,660.70</u>	<u>\$ 2,144,408.19</u>

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority  
of Coffee County, Tennessee  
Statement of Activities  
For the Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Primary Government		
			Governmental Activities	Business-type Activities	Total
Primary government					
Governmental activities:					
Legal and professional fees	\$ 3,500.00	\$ 0.00	\$ (3,500.00)	\$ 0.00	\$ (3,500.00)
Meeting and travel expense	1,200.00	0.00	(1,200.00)	0.00	(1,200.00)
Contract labor	1,350.00	0.00	(1,350.00)	0.00	(1,350.00)
Depreciation	1,760.17	0.00	(1,760.17)	0.00	(1,760.17)
Miscellaneous	20.00	0.00	(20.00)	0.00	(20.00)
Interest and other debt related costs	240,642.50	0.00	(240,642.50)	0.00	(240,642.50)
Total governmental activities	248,472.67	0.00	(248,472.67)	0.00	(248,472.67)
Business-type activities:					
Room rental	0.00	44,248.37	0.00	44,248.37	44,248.37
Beverages and food	137,993.07	532,748.53	0.00	394,755.46	394,755.46
Miscellaneous income	0.00	35,218.62	0.00	35,218.62	35,218.62
Payroll	333,189.06	0.00	0.00	(333,189.06)	(333,189.06)
Payroll taxes	28,159.74	0.00	0.00	(28,159.74)	(28,159.74)
Employee benefits	48,334.57	0.00	0.00	(48,334.57)	(48,334.57)
Contract Labor	2,049.44	0.00	0.00	(2,049.44)	(2,049.44)
Dues and subscriptions	2,225.00	0.00	0.00	(2,225.00)	(2,225.00)
Insurance	985.03	0.00	0.00	(985.03)	(985.03)
Licenses and permits	1,460.00	0.00	0.00	(1,460.00)	(1,460.00)
Miscellaneous	13,139.69	0.00	0.00	(13,139.69)	(13,139.69)
Promotional costs	10,273.75	0.00	0.00	(10,273.75)	(10,273.75)
Postage and delivery	572.00	0.00	0.00	(572.00)	(572.00)
Repairs and maintenance	20,733.15	0.00	0.00	(20,733.15)	(20,733.15)
Utilities	59,471.06	0.00	0.00	(59,471.06)	(59,471.06)
Travel	3,147.16	0.00	0.00	(3,147.16)	(3,147.16)
Supplies	25,865.62	0.00	0.00	(25,865.62)	(25,865.62)
Depreciation	65,458.21	0.00	0.00	(65,458.21)	(65,458.21)
Laundry and linen	30,206.11	0.00	0.00	(30,206.11)	(30,206.11)
Total primary government	\$ 783,262.66	\$ 612,215.52	(248,472.67)	(171,047.14)	(171,047.14)
General revenues					
Appropriations from Coffee County			0.00	72,754.72	72,754.72
Appropriations from Manchester			0.00	72,754.72	72,754.72
Other revenues - See Note 8			3,518.43	0.00	3,518.43
Interest			240,651.57	1,394.44	242,046.01
Total general revenues			244,170.00	146,903.88	391,073.88
Change in net assets					
			(4,302.67)	(24,143.26)	(28,445.93)
Net assets-beginning					
			54,050.16	2,118,803.96	2,172,854.12
Net assets-ending					
			\$ 49,747.49	\$ 2,094,660.70	\$ 2,144,408.19

Notes to financial statements are an integral part of the financial statements.

**The Public Building Authority  
 of Coffee County, Tennessee  
 Balance Sheet  
 Governmental Funds  
 June 30, 2011**

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Bond Fund</u>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,441.27	\$ 0.00	\$ 1,441.27
Total Assets	<u>\$ 1,441.27</u>	<u>\$ 0.00</u>	<u>\$ 1,441.27</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 132.00	\$ 0.00	\$ 132.00
Total Liabilities	<u>132.00</u>	<u>0.00</u>	<u>132.00</u>
Fund balance:			
Unassigned	<u>1,309.27</u>	<u>0.00</u>	<u>1,309.27</u>
Total fund balances	<u>1,309.27</u>	<u>0.00</u>	<u>1,309.27</u>
Total liabilities and fund balances	<u>\$ 1,441.27</u>	<u>\$ 0.00</u>	<u>\$ 1,441.27</u>

Notes to financial statements are an integral part of the financial statements.

**The Public Building Authority  
of Coffee County, Tennessee  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
June 30, 2011**

Fund balances - total governmental funds	\$ 1,309.27
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Amounts reported for governmental activities in the Statement of Net Assets are different from amounts reported for governmental funds in the Balance Sheet because:

Capital assets used in governmental activities are not financial resources and therefore not reported in governmental funds.

Capital assets	52,042.00
Less accumulated depreciation	(3,603.78)

Loans receivable are not due and receivable in the current period and therefore are not reported in the governmental funds.

Notes receivable	5,815,000.00
Interest receivable	75,926.52

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Bonds, notes, and capital lease obligations	(5,815,000.00)
Accrued interest payable	(75,926.52)

Net assets - total governmental activities	\$ <u>49,747.49</u>
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**The Public Building Authority  
of Coffee County, Tennessee  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2011**

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Bond Fund</u>	<u>Governmental</u>
	<u>Fund</u>		<u>Funds</u>
<b><u>REVENUES:</u></b>			
Interest income	\$ 9.07	\$ 240,642.50	\$ 240,651.57
Other income	3,518.43	0.00	3,518.43
Total Revenues	<u>3,527.50</u>	<u>240,642.50</u>	<u>244,170.00</u>
<b><u>EXPENDITURES</u></b>			
General and administrative	6,070.00	0.00	6,070.00
Debt service:			
Principal	0.00	480,000.00	480,000.00
Interest and other charges	0.00	240,642.50	240,642.50
Total Expenditures	<u>6,070.00</u>	<u>720,642.50</u>	<u>726,712.50</u>
(Deficiency) of revenues over expenditures	<u>(2,542.50)</u>	<u>(480,000.00)</u>	<u>(482,542.50)</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>			
Principal payments from Coffee County, Tennessee	0.00	405,000.00	405,000.00
Principal payments from the City of Manchester, Tennessee	0.00	75,000.00	75,000.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>480,000.00</u>	<u>480,000.00</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(2,542.50)</u>	<u>0.00</u>	<u>(2,542.50)</u>
Fund balance, beginning of year	<u>3,851.77</u>	<u>0.00</u>	<u>3,851.77</u>
Fund balance, end of year	<u>\$ 1,309.27</u>	<u>\$ 0.00</u>	<u>\$ 1,309.27</u>

Notes to financial statements are an integral part of the financial statements.

**The Public Building Authority  
of Coffee County, Tennessee  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of the Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2011**

Net change in fund balances - governmental funds	\$ (2,542.50)
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Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Statement of Revenues, Expenditures and Changes in Fund Balances, because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The amount by which capital outlays reported in the Governmental Funds (\$0.00) is less than depreciation (\$1,760.17) for the year.	(1,760.17)
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Repayment of principal on bonds and notes payable is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities. Also governmental funds include interest paid in debt service expenditures, whereas interest is accrued and expensed as it becomes payable for governmental activities.

Principal repayments	480,000.00
Interest payments	240,642.50

Receipt of principal on notes receivable is a revenue in the governmental funds, but decreases loans receivable for governmental activities. Also governmental funds include interest received in revenue, whereas interest receivable is accrued as it becomes receivable for governmental activities.

Principal received	(480,000.00)
Interest received	(240,642.50)

Change in net assets - governmental activities	\$ <u>(4,302.67)</u>
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**The Public Building Authority  
of Coffee County, Tennessee  
Statement of Net Assets  
Proprietary Fund  
June 30, 2011**

	Manchester Coffee County Conference Center
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 189,875.50
Certificates of deposits - restricted	16,252.67
Accounts receivable	50,371.72
Inventory	<u>24,447.58</u>
Total current assets	280,947.47
<b>PROPERTY, PLANT, AND EQUIPMENT</b>	
Property, plant, and equipment, net of accumulated depreciation	<u>1,894,367.47</u>
Total property, plant, and equipment	<u>1,894,367.47</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,175,314.94</u></b>
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 50,134.28
Accrued liabilities	<u>30,519.96</u>
Total current liabilities	<u>80,654.24</u>
<b>TOTAL LIABILITIES</b>	<b>\$ <u>80,654.24</u></b>
<b>NET ASSETS</b>	
Invested in capital assets	\$ 1,918,291.24
Restricted ( non-expendable)	16,252.67
Unrestricted	<u>160,116.79</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>2,094,660.70</u></b>

Notes to financial statements are an integral part of the financial statements.

**The Public Building Authority  
of Coffee County, Tennessee  
Statement of Revenue, Expenses, and Changes in Fund Net Assets  
Proprietary Fund  
For the Year Ended June 30, 2011**

	Manchester Coffee County Conference Center
	<hr/>
OPERATING REVENUES:	
Rental income	\$ 48,498.37
Food, beverage and service sales	<hr/> 563,717.15
	<hr/>
Total Operating Revenues	612,215.52
Operating expenses:	
Cost of food and beverage sold	137,993.07
Maintenance and operations	43,657.26
Payroll expenses	409,683.37
Contract labor	2,049.44
Advertising	10,273.75
Utilities	59,471.06
Professional services	7,282.00
Depreciation	65,458.21
Insurance	985.03
Bank charges	2,318.90
Manager's discretionary account	3,441.95
Other	<hr/> 40,648.62
	<hr/>
Total Operating Expenses	783,262.66
	<hr/>
Operating (loss)	(171,047.14)
Nonoperating revenues (expenses):	
Interest income	1,394.44
Appropriations from governments	<hr/> 145,509.44
	<hr/>
Total Nonoperating Revenues (Expenses)	146,903.88
	<hr/>
Net (loss)	(24,143.26)
	<hr/>
Change in net assets	(24,143.26)
	<hr/>
Net assets, beginning of year	2,118,803.96
	<hr/>
Net assets, end of year	\$ 2,094,660.70
	<hr/> <hr/>

Notes to financial statements are an integral part of the financial statements.

**The Public Building Authority  
of Coffee County, Tennessee  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2011**

	Enterprise Fund Manchester Coffee County Conference Center
Cash flows from operating activities:	
Cash received from customers	\$ 621,094.65
Cash paid to employees	(333,189.06)
Cash paid to suppliers and employees	<u>(376,554.39)</u>
Net cash (used) by operating activities	(88,648.80)
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	<u>(41,534.44)</u>
Net cash (used) by capital and related financing activities	(41,534.44)
Cash flows from noncapital financing activities:	
Appropriations from governments	<u>145,509.44</u>
Net cash provided by noncapital financing activities	145,509.44
Cash flows from investing activities:	
Investment in restricted certificates of deposits	(191.71)
Interest income	<u>1,394.44</u>
Net cash provided by investing activities	<u>1,202.73</u>
Net increase in cash and cash equivalents	16,528.93
Cash and cash equivalents at beginning of year	<u>173,346.57</u>
Cash and cash equivalents at end of year	<u><u>\$ 189,875.50</u></u>

(continued)

**The Public Building Authority**  
**of Coffee County, Tennessee**  
**Statement of Cash Flows (Continued)**  
**Proprietary Fund**  
**For the Year Ended June 30, 2011**

Reconciliation of operating income to net cash used by operations

Operating (loss)	\$	(171,047.14)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization		65,458.21
Decrease in accounts receivable		8,879.13
Increase in inventories		(3,957.87)
Increase in accounts payable		6,087.00
Increase in accrued expenses		<u>5,931.87</u>
Total Adjustments		<u>82,398.34</u>
Net cash (used) by operating activities	\$	<u><u>(88,648.80)</u></u>

**The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Public Building Authority of Coffee County, Tennessee (the Authority) was incorporated September 5, 2000. The purpose of the Authority is to provide the capital resources (through the sale of bonds, notes, and other obligations) necessary to acquire, construct, reconstruct, rehabilitate, or improve facilities necessary or convenient to the operation of the related entities. In accordance with Section 12-10-108, Tennessee Code Annotated, the Authority has seven Board of Directors that are elected by the governing body; the County Commission of Coffee County, Tennessee, and they hold office for staggered six year terms. As defined in GASB 14, the Authority is a legal entity that meets the definition of a component unit of Coffee County in that a financial benefit/burden relationship exists between the County and the Authority.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

**Reporting entity**

The Authority follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the Authority is financially accountable. The Authority is not a participant in any joint venture and has not identified any entities which would be component units of the Authority.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the Authority's activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*. The effect of interfund activity has been removed from the government-wide financial statements.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus and Basis of Accounting**

***Government-Wide Financial Statements***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Measurement Focus and Basis of Accounting (continued)

*Governmental Fund Financial Statements*

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures, and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are interest on investments, and intergovernmental revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority has presented the following major governmental funds:

General Fund – This fund is the main operating fund of the Authority. This fund is used to account for all financial resources not accounted for in other funds. All general revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Bond Fund - This fund is a special revenue fund used to account for the loans made by the Authority to the City and County for capital projects such as the joint industrial park, vocational rehab center, and water lines for the county. The collection of principal and interest on these loans is recorded in the bond fund.

*Proprietary Fund Financial Statements*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Conference center are charges for catering, space rental and related services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the Authority applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The Authority has presented the following major proprietary fund:

Manchester Conference Center– This fund is used to account for the services provided at the Conference Center.

**The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued**

**Measurement Focus and Basis of Accounting (continued)**

Proprietary funds distinguish operating revenues and expenses from non – operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non – operating revenues and expenses.

**Equipment**

Plant and equipment is stated at cost, and depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives vary from five to forty years. Major expenditures for plant and equipment are capitalized while maintenance and repairs are expensed when incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Statements of Cash Flows**

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

**Interfund Receivables and Payables and Transactions Between Funds**

Short-term amounts owed between funds are classified as "Due to/from other funds." Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

**Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Authority has classified certain prepaid expenses and inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

**Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Authority has classified certificates of deposit totaling \$16,252.67 as being restricted.

**The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued**

**Fund Balance Classification (continued)**

**Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that as employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Authority did not have any committed resources as of June 30, 2011.

**Assigned:** This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the manager through the budgetary process. The Authority did not have any committed resources as of June 30, 2011.

**Unassigned:** This classification includes the residual fund balance for the General Fund.

The Authority would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

**Conference Center**

During the year ended June 30, 2002, the Authority completed construction of the Manchester-Coffee County Conference Center, located adjacent to the Holiday Inn in Manchester. The PBA is responsible for operating the conference center. Operations of the Conference Center are reported as an enterprise fund of the PBA. In an agreement with the Authority, the City of Manchester and Coffee County are jointly responsible for underwriting the debt and operations of the Center. Furthermore, any net profits and losses attributable to the operation of the conference center are born equally by the City of Manchester and Coffee County.

**NOTE 2 – CASH**

The Authority is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2011, the Authority invested funds that are not immediately needed in certificates of deposit, savings accounts and money market accounts. The Authority's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the Authority's bank in the Authority's name. The carrying amount of total cash deposits (including petty cash) at June 30, 2011, is \$207,569.44.

**The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)**

**NOTE 3 - RECEIVABLES**

A summary of governmental receivables for the year ended June 30, 2011, follows:

Coffee County	\$4,385,000.00
City of Manchester	<u>1,430,000.00</u>
	<u>\$5,815,000.00</u>

Of the total, the Public Building Authority expects to receive \$65,000.00 from the City of Manchester and \$375,000.00 from Coffee County for bond payment within the next twelve months.

The business type activities consist of the following receivable for the year ended June 30, 2011:

Trade receivables	\$15,885.27
Coffee County	17,243.24
City of Manchester	<u>17,243.21</u>
	<u>\$50,371.72</u>

**NOTE 4 - CAPITAL ASSETS**

**Governmental Activities**

A summary of changes in property, plant and equipment for the year ended June 30, 2011, follows:

Coffee County Public Authority:

	Balance 7-01-10	Additions	Transfers/ Retirements	Balance 6-30-11
Land	\$25,000.00	\$ 0.00	\$ 0.00	\$ 25,000.00
Equipment	27,042.00	0.00	0.00	27,042.00
Less accumulated depreciation - equipment	<u>(1,843.61)</u>	<u>(1,760.17)</u>	<u>0.00</u>	<u>(3,603.78)</u>
Net	<u>\$50,198.39</u>	<u>\$ (1,760.17)</u>	<u>\$ 0.00</u>	<u>\$ 48,438.22</u>

Depreciation expense amounted to \$1,760.17 for the year ended June 30, 2011.

The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)

**NOTE 4 - CAPITAL ASSETS – continued**

**Business Type Activities**

A summary of changes in property, plant and equipment for the year ended June 30, 2010 follows:

Coffee County/Manchester Conference Center:

	Balance 7-01-10	Additions	Transfers/ Retirements	Balance 6-30-11
Buildings	\$2,375,568.69	\$ 28,037.00	\$ 0.00	\$2,403,605.69
Equipment	310,147.03	13,497.44	0.00	323,644.47
	<u>\$2,685,715.72</u>	<u>\$ 41,534.44</u>	<u>\$ 0.00</u>	<u>\$2,727,250.16</u>
Less accumulated depreciation – buildings	\$ (473,149.79)	\$ (60,820.20)	\$ 0.00	\$ (533,969.99)
Less accumulated depreciation – equipment	(294,274.69)	(4,638.01)	0.00	(298,912.70)
	<u>(767,424.48)</u>	<u>(65,458.21)</u>	<u>0.00</u>	<u>(832,882.69)</u>
Net	<u>\$1,918,291.24</u>	<u>\$ (23,923.77)</u>	<u>\$ 0.00</u>	<u>\$1,894,367.47</u>

Depreciation expense amounted to \$65,458.21 for the year ended June 30, 2011.

**NOTE 5 - BONDS PAYABLE**

The following is a summary of the Authority's bonded debt transactions for the year ended June 30, 2011:

Coffee County Public Authority:

	Outstanding 7-01-10	Additions	Refunding/ Retirements	Outstanding 6-30-11
Bonds, Series 2001A 3.25% - 5.00%	\$450,000.00	\$ 0.00	\$ 450,000.00	\$ 0.00
Bonds, Series Z-4A 4.5% - 5.00%	5,845,000.00	0.00	30,000.00	5,815,000.00
	<u>\$6,295,000.00</u>	<u>\$ 0.00</u>	<u>\$ 480,000.00</u>	<u>\$5,815,000.00</u>

**The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)**

**NOTE 5 - BONDS PAYABLE – continued**

Annual debt service requirements for bonds, Series Z-4A outstanding to maturity are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 425,000.00	\$ 232,600.00
2013	455,000.00	215,600.00
2014	490,000.00	197,400.00
2015	520,000.00	177,800.00
2016	555,000.00	157,000.00
2017 – 2021	<u>3,370,000.00</u>	<u>421,400.00</u>
	<u>\$ 5,815,000.00</u>	<u>\$ 1,401,800.00</u>

The City of Manchester and Coffee County are jointly responsible for the bonds payable.

**NOTE 6 - CONDUIT DEBT**

The Authority is an unauthorized conduit debt issuer under the Tennessee Local Government Alternative Loan Program (TN-LOANS Program). The Authority has issued bonds as conduit debt on behalf of the Cities of Manchester, TN, Winchester, TN, Fayetteville, TN, White House, TN, Lawrenceburg, TN, Harrison County, TN, and Coffee County, Tennessee. The borrowers have guaranteed, insured, and pledged certain revenues for repayments of these bond issues. The bonds do not constitute a debt or pledge of faith and credit of the Authority and, accordingly, have not been reported in the accompanying financial statements. The total conduit debt outstanding as of June 31, 2011, for all conduit bond issues is \$40,560,000.

**NOTE 7 - INVENTORY**

Inventory is stated at cost and includes food and supplies used by the Conference Center.

**NOTE 8 – OTHER REVENUES**

Total Other Revenues for the year were \$3,518.43. This amount is comprised of various other revenues and fees.

**NOTE 9- BUDGETARY DATA**

Formal budgetary accounting is employed as a management control for all funds of the Authority. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required, and the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principles basis. Budgetary control is exercised at the departmental level.

**NOTE 10 – RISK FINANCING ACTIVITIES**

It is the policy of the Authority to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and environmental. Settled claims have not exceeded commercial coverage in the past three fiscal years, and there are currently no pending lawsuits.

**The Public Building Authority  
of Coffee County, Tennessee  
Notes to Financial Statements  
June 30, 2011  
(Continued)**

**NOTE 11 – RETIREMENT PLAN**

The employees of the Authority are covered under the plan covering employees of Coffee County. The Coffee County Government unit pays for this plan.

**NOTE 12 – ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Authority has adopted the direct write-off method to account for bad debt expense. Receivables are reviewed annually and uncollectable accounts are currently expensed. There was no bad debt expense in 2011.

**The Public Building Authority  
of Coffee County, Tennessee  
Schedule of Cash  
June 30, 2011**

	<u>Carrying Value</u>
General Fund:	
American City Bank-Checking Account	\$ 1,191.27
Petty Cash	<u>250.00</u>
Total General Fund	<u>1,441.27</u>
Enterprise Fund:	
American City Bank-Checking Account	\$ 22,816.22
American City Bank-Checking Account	166,089.83
American City Bank-CD	16,252.67
Petty Cash	600.00
Cash on Hand	<u>369.45</u>
Total Enterprise Fund	<u>206,128.17</u>
 Total Cash - All Funds	 \$ <u><u>207,569.44</u></u>

**The Public Building Authority of Coffee County, Tennessee**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2011**

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	\$ 3,851.77	\$ 3,851.77	\$ 3,851.77	\$ 0.00
Resources (inflows):				
Bond revenues	6,000.00	7,400.00	3,518.43	(3,881.57)
Other income	0.00	0.00	0.00	0.00
Interest income	25.00	20.00	9.07	(10.93)
Amounts available for appropriation	6,025.00	7,420.00	3,527.50	(3,892.50)
Charges to appropriations (outflows):				
Legal and professional	2,000.00	2,000.00	3,500.00	(1,500.00)
Repairs	3,500.00	3,500.00	0.00	3,500.00
Other Expenses	3,925.00	3,925.00	2,570.00	1,355.00
Total charges to appropriations	9,425.00	9,425.00	6,070.00	3,355.00
Budgetary fund balance, end of year	\$ 451.77	\$ 1,846.77	\$ 1,309.27	\$ (537.50)

(continued)

**The Public Building Authority of Coffee County, Tennessee  
 Budgetary Comparison Schedule - General Fund (Continued)  
 For the Year Ended June 30, 2011**

	<u>General Fund</u>
Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	
Sources/Inflow of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 3,527.50
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	<u><u>3,527.50</u></u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "total charges to appropriations": from the budgetary comparison schedule	6,070.00
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	<u>0.00</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ <u><u>6,070.00</u></u>

# BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, SUITE A, WINCHESTER, TN 37398

Office: 931-967-0611

Fax: 931-967-4784

[www.brkcpa.com](http://www.brkcpa.com)

Members of American Institute of  
Certified Public Accountants,  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Coffee County Public Building Authority  
Manchester, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise The Public Building Authority of Coffee County, Tennessee's basic financial statements and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Public Building Authority of Coffee County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting [10-01]. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Public Building Authority of Coffee County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and responses [10-02 and 11-01].

The Public Building Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit The Public Building Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, City Council, County Commissioners and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Bean, Rhoton & Kelley". The signature is written in a cursive, flowing style.

Bean, Rhoton & Kelley, PLLC  
December 30, 2011

**The Public Building Authority  
of Coffee County, Tennessee  
Schedule of Findings and Responses  
June 30, 2011**

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**I. Summary of Auditors' Results**

- A. The June 30, 2011, Auditor's Report on the Financial Statements was unqualified.
- B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in the Schedule of Findings and Responses in findings 10-01.
- C. There were no material weaknesses.
- D. Reportable conditions in compliance were disclosed by the audit and are discussed below in the Schedule of Findings and Responses in findings 10-02 and 11-01.

**II. Findings Related to the Financial Statements which are required to be reported in Accordance with Government Auditing Standards.**

**(10-01) Segregation of Duties**

In our review of the overall accounting controls of the Center's accounting system, we found several areas where proper segregation of duties might be obtained. The Center's inability to properly segregate the control of funds from record-keeping duties is a significant weakness in controls. It is understood that due to the lack of available personnel this situation does and will continue to exist. The Board should realize the additional responsibilities imposed.

**Recommendation:**

Because of the number of office staff working for the Center, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Center's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Center. Certain additional procedures and segregation of proper duties could increase the control over the assets.

**Board's Comment:**

Because of the size and nature of the Center's operation, there is no practical way to remedy this situation. We will work on these issues to mitigate the risks

**Disposition:**

As of June 30, 2011, this problem still exists.

**(10-02) Three Day Banking Law**

Deposits are not always being made within three days of receipt.

**Recommendation:**

All collections of cash must be deposited to an official bank within three days of collection. One purpose of this rule is to minimize losses from theft, resulting from break-ins or misplaced cash.

**Board's Comment:**

This problem will be taken care of immediately.

**Disposition:**

As of June 30, 2011, this problem still exists.

(11-01) Authorized Signatures

During our testing, we identified a bank account which only requires one signature to withdraw funds.

Recommendation:

All deposits and investments should require dual signatures to withdraw funds.

Board's Comment:

We will correct this problem.